

Northville Public Schools

**Financial Report
with Supplemental Information
June 30, 2008**

Northville Public Schools

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Independent Auditor's Report

To the Board of Education
Northville Public Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Northville Public Schools (the "School District") as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Northville Public Schools' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Northville Public Schools as of June 30, 2008 and the respective changes in financial position and cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis (identified in the table of contents) is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Board of Education
Northville Public Schools

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Northville Public Schools' basic financial statements. The accompanying required supplemental information and other supplemental information, as identified in the table of contents, are not a required part of the basic financial statements. The required supplemental information is information required by the Governmental Accounting Standards Board; the other supplemental information is presented for the purpose of additional analysis. The required supplemental information and the other supplemental information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 3, 2008 on our consideration of Northville Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Moran, PLLC

September 3, 2008

Northville Public Schools

Management's Discussion and Analysis

This section of the 2008 annual financial report of Northville Public Schools (the "School District") presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2008. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Northville Public Schools financially as a whole. The district-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund, Special Education Center Fund, and 2004 Building and Site Fund, with all other funds presented in one column as nonmajor funds. The remaining statements, the statement of fiduciary net assets and the statement of changes in fiduciary net assets, present financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

District-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)

Budgetary Information for General Fund and Major Special Revenue Funds

Other Supplemental Information

Reporting the School District as a Whole - District-wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Northville Public Schools

Management's Discussion and Analysis (Continued)

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, community services, athletics, early childhood development, and food services. Property taxes, unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

Reporting the School District's Most Significant Funds - Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by state law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Services and Athletics Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money, such as the 2004 bond issue, which funded construction for voter-approved capital projects. The governmental funds of the School District use the following accounting approach:

Governmental funds - All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in reconciliations on pages 13 and 15.

Northville Public Schools

Management's Discussion and Analysis (Continued)

The School District as Trustee - Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds and its trust funds. All of the School District's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District as a Whole

The statement of net assets provides the perspective of the School District as a whole. Table I provides a summary of the School District's net assets as of June 30, 2008 and 2007:

TABLE I

	Governmental Activities	
	2008	2007
	(in millions)	
Assets		
Current and other assets	\$ 27.3	\$ 27.0
Capital assets	112.1	115.5
Total assets	139.4	142.5
Liabilities		
Current liabilities	26.0	25.9
Long-term liabilities	87.6	95.0
Total liabilities	113.6	120.9
Net Assets		
Invested in property and equipment - Net of related debt	22.2	19.3
Restricted	1.6	1.3
Unrestricted	2.0	1.0
Total net assets	\$ 25.8	\$ 21.6

The above analysis focuses on the net assets (see Table I). The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets were \$25.8 million and \$21.6 million at June 30, 2008 and 2007, respectively. Capital assets, net of related debt totaling \$22.2 million, compares the original cost, less depreciation of the School District's capital assets, to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets (\$2.0 million) was unrestricted.

Northville Public Schools

Management's Discussion and Analysis (Continued)

The \$2.0 million in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The unrestricted net assets balance enables the School District to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal years 2008 and 2007.

TABLE 2

	Governmental Activities	
	2008	2007
	(in millions)	
Revenue		
Program revenue:		
Charges for services	\$ 4.9	\$ 4.7
Operating grants	17.3	17.0
General revenue:		
Property taxes	21.7	20.8
State foundation allowance	48.3	48.0
Other	1.1	1.2
Total revenue	93.3	91.7
Functions/Program Expenses		
Instruction	49.2	48.3
Support services	30.8	30.1
Community services	2.0	2.2
Food services	2.5	2.5
Athletics	0.7	0.8
Interest on long-term debt	3.9	4.2
Total functions/program expenses	89.1	88.1
Increase in Net Assets	\$ 4.2	\$ 3.6

As reported in the statement of activities, the cost of all of our governmental activities this year was \$89.1 million. Certain activities were partially funded from those who benefited from the programs (\$4.9 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$17.3 million). The School District paid for the remaining "public benefit" portion of our governmental activities with \$21.7 million in taxes, \$48.3 million in state foundation allowance, and with our other revenues, i.e., interest and general entitlements. The School District experienced an increase in net assets of \$4.2 million.

Northville Public Schools

Management's Discussion and Analysis (Continued)

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted state aid constitute the vast majority of district operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with state-prescribed available unrestricted resources.

The School District's Funds

As noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed this year, the governmental funds reported a combined fund balance of \$8.8 million, which is an increase of \$.1 million from last year. Increases in the General Fund and nonmajor funds offset the continued usage of funds from the 2004 building and site bonds.

In the General Fund, our principal operating fund, the fund balance increased \$680,500 to \$3.8 million. The change is mainly due to lower than expected medical insurance and retirement costs and a plan to increase fund balance.

General Fund fund balance is available to fund costs related to allowable school operating purposes.

Our Special Education Center Program Fund remained stable from the prior years, showing minimal net decrease.

The 2004 Capital Projects Fund fund balance decreased as the School District continued construction related to the 2004 bond issue. The construction project is estimated to be approximately 92 percent complete at June 30, 2008.

The other nonmajor funds increased by approximately \$743,000. Combined, the Debt Service Funds showed a fund balance increase of approximately \$.47 million. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Debt Service Funds fund balances are reserved since they can only be used to pay debt service obligations.

Northville Public Schools

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted in June 2008. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

There were several revisions made to the 2007-2008 General Fund original budget. Revenues were decreased primarily to reflect the final allocation of federal funds, a decreased reimbursement of special education aides, and reimbursement related to special education indirect costs. There was, however, a net increase of revenue of \$.1 million. On the expense side, there were decreases in transportation salaries, custodial salaries, operations supplies and services, and medical costs. These changes overall decreased expense by \$0.2 million in the General Fund. See Note 2 in the notes to the financial statements for further explanation of these variances.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2008, the School District had \$112 million invested in a broad range of capital assets, including land, buildings, vehicles, furniture, and equipment. This amount represents a net decrease (including additions, disposals, and depreciation) of approximately \$3.5 million, or 3 percent, from last year.

	2008	2007
Land	\$ 3,377,000	\$ 3,377,000
Construction in progress	-	-
Buildings and building improvements	105,370,801	108,263,650
Buses and other vehicles	948,847	1,205,362
Furniture and equipment	2,391,857	2,681,413
Total capital assets	<u>\$ 112,088,505</u>	<u>\$ 115,527,425</u>

This year's additions of \$1.0 million included vehicles, technology, and building renovations.

Northville Public Schools

Management's Discussion and Analysis (Continued)

Debt

At the end of this year, the School District had \$89.1 million in bonds outstanding versus \$96.2 million in the previous year - a change of 7.5 percent. Those bonds consisted of the following:

	2008	2007
General obligation bonds	<u>\$ 89,090,000</u>	<u>\$ 96,260,000</u>

The School District's Moody's rating on school bond fund qualified bonds is Aa3, and the S&P rating is AA-. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. The School District's outstanding qualified general obligation debt of \$89.1 million is significantly below this \$390 million statutorily imposed limit.

Other obligations include accrued vacation pay, sick leave, and "incurred but not yet reported" healthcare claims. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the School District's 2008/2009 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2008 fiscal year is 25 percent of the February 2008 and 75 percent of the September 2008 student counts. The 2008/2009 budget was adopted in June 2008, based on an estimate of students that will be enrolled in September 2008. Approximately 79 percent of total General Fund revenue is from the foundation allowance. The foundation allowance will increase \$56 for 2008/2009 as reflected in the adopted state budget (see caveat in following paragraph). Under state law, the School District cannot assess additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2008-2009 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2008-2009 budget. Once the final student count and related per pupil funding are validated, state law requires the School District to amend the budget if actual School District resources are not sufficient to fund original appropriations.

Since the School District's revenue is heavily dependent on state funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The State periodically holds a revenue-estimating conference to estimate revenues. If actual state revenues are less than their estimates, reduction to the per pupil funding allowance may be necessary.

Northville Public Schools

Statement of Net Assets June 30, 2008

	Governmental Activities
Assets	
Cash and investments (Note 3)	\$ 10,757,908
Receivables - Net (Note 4)	11,918,153
Inventories	216,617
Prepaid costs	573,476
Restricted assets (Note 8)	3,864,137
Capital assets - Net (Note 5)	<u>112,088,505</u>
Total assets	139,418,796
Liabilities	
Accounts payable	1,312,223
Accrued payroll and other liabilities	7,319,389
Deferred revenue (Note 4)	301,466
State aid anticipation note (Note 11)	10,000,000
Long-term liabilities (Note 7):	
Due within one year	7,079,921
Due in more than one year	<u>87,624,847</u>
Total liabilities	<u>113,637,846</u>
Net Assets	
Investment in capital assets - Net of related debt	22,152,592
Restricted:	
Debt service	1,456,629
Capital projects	182,702
Unrestricted	<u>1,989,027</u>
Total net assets	<u><u>\$ 25,780,950</u></u>

Northville Public Schools

Statement of Activities Year Ended June 30, 2008

	Program Revenues			Governmental Activities
	Expenses	Charges for Services	Operating Grants/ Contributions	Net (Expense) Revenue and Changes in Net Assets
Functions/Programs				
Primary government - Governmental activities:				
Instruction	\$ 49,212,953	\$ 117,366	\$ 17,066,249	\$ (32,029,338)
Support services	30,758,793	-	-	(30,758,793)
Food services	2,466,517	2,205,387	187,926	(73,204)
Athletics	728,978	253,091	-	(475,887)
Community services	2,045,444	2,356,622	-	311,178
Interest on long-term debt	3,916,747	-	-	(3,916,747)
Total governmental activities	<u>\$ 89,129,432</u>	<u>\$ 4,932,466</u>	<u>\$ 17,254,175</u>	(66,942,791)
General revenues:				
Taxes:				
Property taxes, levied for general purposes				9,722,734
Property taxes, levied for debt services				11,997,825
State aid not restricted to specific purposes				48,285,589
Interest and investment earnings				669,608
Other				<u>472,667</u>
Total general revenues				<u>71,148,423</u>
Change in Net Assets				4,205,632
Net Assets - Beginning of year				<u>21,575,318</u>
Net Assets - End of year				<u>\$ 25,780,950</u>

Northville Public Schools

Governmental Funds Balance Sheet June 30, 2008

	General Fund	Special Education Center Fund	2004 Building and Site Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and investments (Note 3)	\$ 9,679,708	\$ -	\$ 3,864,137	\$ 1,078,200	\$ 14,622,045
Receivables - Net	10,754,175	755,801	-	408,177	11,918,153
Due from other funds	-	554,403	-	554,379	1,108,782
Inventories	139,839	-	-	76,778	216,617
Prepaid costs	573,476	-	-	-	573,476
Total assets	<u>\$ 21,147,198</u>	<u>\$ 1,310,204</u>	<u>\$ 3,864,137</u>	<u>\$ 2,117,534</u>	<u>\$ 28,439,073</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 450,574	\$ 12,254	\$ 182,956	\$ 50,943	\$ 696,727
Accrued payroll and other liabilities	5,612,453	1,295,302	-	-	6,907,755
State aid anticipation note	10,000,000	-	-	-	10,000,000
Due to other funds	944,024	-	538,890	241,364	1,724,278
Deferred revenue (Note 4)	280,048	-	-	21,418	301,466
Total liabilities	17,287,099	1,307,556	721,846	313,725	19,630,226
Fund Balances					
Reserved:					
Inventories and prepaids	713,315	-	-	76,778	790,093
Debt service	-	-	-	1,456,629	1,456,629
Capital projects	-	-	3,142,291	-	3,142,291
Designated for future healthcare costs	150,000	-	-	-	150,000
Undesignated, reported in:					
General Fund	2,996,784	-	-	-	2,996,784
Special Revenue Funds	-	2,648	-	270,402	273,050
Total fund balances	<u>3,860,099</u>	<u>2,648</u>	<u>3,142,291</u>	<u>1,803,809</u>	<u>8,808,847</u>
Total liabilities and fund balances	<u>\$ 21,147,198</u>	<u>\$ 1,310,204</u>	<u>\$ 3,864,137</u>	<u>\$ 2,117,534</u>	<u>\$ 28,439,073</u>

Northville Public Schools

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets June 30, 2008

Fund Balance - Total Governmental Funds \$ 8,808,847

Amounts reported for governmental activities in the
statement of net assets are different because:

Capital assets used in governmental activities
are not financial resources and are not
reported in the governmental funds:

Cost of capital assets	\$ 172,376,039	
Accumulated depreciation	<u>(60,287,534)</u>	112,088,505

Long-term liabilities are not due and payable in
the current period and are not
reported in the governmental funds:

Bonds payable including bond premium	(92,483,868)
Compensated absences/IBNR for self-insurance	(2,220,900)

Accrued interest payable is not included as a
liability in governmental funds

(411,634)

Net Assets - Governmental Activities \$ 25,780,950

Northville Public Schools

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2008

	General Fund	Special Education Center Fund	2004 Building and Site Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenue					
Local sources	\$ 10,645,994	\$ -	\$ 195,816	\$ 16,953,490	\$ 27,795,300
State sources	50,303,826	3,709,603	-	67,874	54,081,303
Federal sources	1,230,523	-	-	187,926	1,418,449
Interdistrict sources	782,942	9,254,770	-	2,300	10,040,012
Total revenue	62,963,285	12,964,373	195,816	17,211,590	93,335,064
Expenditures					
Current:					
Instruction	39,464,636	-	-	-	39,464,636
Support services	23,646,163	-	-	-	23,646,163
Community services	-	-	-	2,045,444	2,045,444
Food service	-	-	-	2,334,269	2,334,269
Athletics	-	-	-	728,978	728,978
Special education:					
Instruction	-	8,642,418	-	-	8,642,418
Support services	-	3,137,711	-	-	3,137,711
Debt service:					
Principal	-	-	-	7,170,000	7,170,000
Interest	-	-	-	4,259,076	4,259,076
Other	-	-	-	238,501	238,501
Capital outlay	27,007	17,099	1,521,906	5,013	1,571,025
Total expenditures	63,137,806	11,797,228	1,521,906	16,781,281	93,238,221
Excess (Deficiency) of Revenue Over Expenditures	(174,521)	1,167,145	(1,326,090)	430,309	96,843
Other Financing Sources (Uses)					
Transfers in	1,402,785	-	-	1,146,846	2,549,631
Transfers out	(547,764)	(1,167,682)	-	(834,185)	(2,549,631)
Total other financing sources (uses)	855,021	(1,167,682)	-	312,661	-
Net Change in Fund Balances	680,500	(537)	(1,326,090)	742,970	96,843
Fund Balances - Beginning of year	3,179,599	3,185	4,468,381	1,060,839	8,712,004
Fund Balances - End of year	\$ 3,860,099	\$ 2,648	\$ 3,142,291	\$ 1,803,809	\$ 8,808,847

Northville Public Schools

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2008

Net Change in Fund Balances - Total Governmental Funds	\$	96,843
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlay as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Depreciation expense	\$ (4,408,273)	
Capitalized capital outlay	<u>969,353</u>	(3,438,920)

Underwriter's premium is reported as revenue in the governmental funds and amortized on the statement of activities	304,921
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Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	37,408
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Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	7,170,000
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Compensated absences, as well as estimated self-insured liability claims, are recorded when earned in the statement of activities. In the current year, more was paid out than was earned	<u>35,380</u>
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Change in Net Assets of Governmental Activities	\$	<u><u>4,205,632</u></u>
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Northville Public Schools

Fiduciary Fund Statement of Fiduciary Net Assets June 30, 2008

	Trust Funds	Student Activities Agency Fund
Assets		
Cash and investments	\$ 247,112	\$ 166,153
Due from General Fund	<u>-</u>	<u>629,495</u>
Total assets	247,112	<u>\$ 795,648</u>
Liabilities		
Accounts payable	750	\$ -
Due to General Fund	13,999	-
Due to student groups	<u>-</u>	<u>795,648</u>
Total liabilities	<u>14,749</u>	<u>\$ 795,648</u>
Net Assets - Reserved for scholarships	<u>\$ 232,363</u>	

Northville Public Schools

Fiduciary Fund **Statement of Changes in Fiduciary Net Assets** **Year Ended June 30, 2008**

	<u>Trust Funds</u>
Additions	
Interest	\$ 15,257
Contributions	<u>1,250</u>
Total additions	16,507
Deductions	
Scholarships awarded and other expenses	15,535
Unrealized net loss on investments	<u>19,000</u>
Total deductions	<u>34,535</u>
Change in Net Assets	(18,028)
Net Assets - Beginning of year	<u>250,391</u>
Net Assets - End of year	<u><u>\$ 232,363</u></u>

Note I - Summary of Significant Accounting Policies

The accounting policies of Northville Public Schools (the "School District") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District:

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate, component units of the School District. Based on the application of the criteria, the School District does not contain any component units.

District-wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's district-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Note 1 - Summary of Significant Accounting Policies (Continued)

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-wide Financial Statements - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted state aid.

Fund Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the School District.

Northville Public Schools

Notes to Financial Statements June 30, 2008

Note I - Summary of Significant Accounting Policies (Continued)

Fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

The School District reports the following major governmental funds:

General Fund - The General Fund is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.

Special Education Center Program Fund - The Special Education Center Program Fund is used to record all transactions associated with special education center programs administered by the School District on behalf of the county.

2004 Building and Site Capital Projects Fund - The 2004 Building and Site Capital Projects Fund is used to record bond proceeds or other revenue and the disbursement of invoices specifically designated for acquiring new school sites, buildings, equipment, and for remodeling. The fund operates until the purpose for which it was created is accomplished.

Additionally, the School District reports the following fund types:

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The School District's Special Revenue Funds include food services, athletics, and the early childhood development center. Any operating deficit generated by these activities is the responsibility of the General Fund.

Debt Service Funds - Debt Service Funds are used to record tax, interest, other revenue for payment of interest, principal, and other expenditures on bonds outstanding.

Student Activity (Agency) Fund - The School District presently maintains a Student Activity Fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students.

Trust Funds - The School District maintains trust funds to account for funds entrusted to the School District for scholarship award programs and various school-related purposes.

Note 1 - Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity

Cash and Investments - Cash and investments include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the School District's funds is generally allocated to each fund using a weighted average of balance for the principal.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The School District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. Property taxes are assessed as of December 31 and the related property taxes become a lien on July 1 for approximately 50 percent of the taxes that are due on September 15 and December 1 for the remainder of the property taxes that are due on February 14. The final collection date is February 28, after which they are added to the county tax rolls.

Inventories and Prepaid Costs - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid costs in both district-wide and fund financial statements.

Restricted Assets - The unspent bond proceeds and related interest of the Capital Projects Funds require amounts to be set aside for construction. These amounts have been classified as restricted assets.

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the district-wide financial statements. Capital assets are defined by the School District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The School District does not have infrastructure-type assets.

Northville Public Schools

Notes to Financial Statements June 30, 2008

Note 1 - Summary of Significant Accounting Policies (Continued)

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and building additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-10 years

Compensated Absences - The liability for compensated absences reported in the district-wide statements consists of earned but unused accumulated vacation and sick leave benefits. A liability for these amounts is reported in governmental funds as it comes due for payment. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Long-term Obligations - In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data/Reclassifications - Comparative data is not included in the School District's financial statements.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

Northville Public Schools

Notes to Financial Statements June 30, 2008

Note 2 - Stewardship, Compliance, and Accountability (Continued)

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. The budget was amended during the year to account for additional revenue due to greater special education funding. Expenditures were increased due to greater general education and special education salaries, utilities, transportation salaries, and legal costs. Reductions took place in technology and curriculum salary, operations repairs, and alternative education.

Encumbrance accounting is employed in governmental funds. Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. As a result, fund balance has not been reserved.

Capital Projects Fund Compliance - The Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994. For this capital project, the School District has complied with the applicable provisions of §1351a of the State of Michigan's School Code. Beginning with the year of bond issuance, the School District has reported the annual construction activity in the 2004 Building and Site Fund. The project for which the 2004 bonds were issued was considered complete on June 30, 2008 and the cumulative expenditures recognized for the construction period were \$35,141,026.

Note 3 - Deposits and Investments

State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The School District is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority.

The School District has designated two banks for the deposit of its funds.

The investment policy adopted by the board in accordance with state statutes has authorized investment in bonds and securities of the United States government, bank accounts, CDs, and all other investments as noted by the state statutory authority as listed above.

Note 3 - Deposits and Investments (Continued)

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level are used for the School District's deposits for custodial credit risk. At year end, the School District's deposit balance of \$362,277 had \$260,810 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the School District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District's policy for custodial credit risk states custodial credit risk will be minimized by limiting investments to the types of securities allowed by state law, and by pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the School District will do business using the criteria established in the investment policy. The School District does not have investments with custodial credit risk.

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School District's investment policy does not restrict investment maturities. The School District's policy minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the School District's cash requirements.

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The School District's investment policy does not further limit its investment choices.

Northville Public Schools

Notes to Financial Statements June 30, 2008

Note 3 - Deposits and Investments (Continued)

At year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Bank investment pool	\$ 15,239,357	AAAm	S&P
Mutual fund	158,077	Not rated	

Concentration of Credit Risk - The School District places no limit on the amount the School District may invest in any one issuer.

Foreign Currency Risk - Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value, as a result of changes in foreign currency exchange rates. State law and the School District's policy prohibit investment in foreign currency.

Note 4 - Receivables

Receivables as of year end for the School District's individual major funds and the nonmajor funds in the aggregate are as follows:

	General Fund	Special Education Center Fund	Nonmajor and Other Funds	Total
Receivables:				
Taxes	\$ 415,242	\$ -	\$ 386,937	\$ 802,179
Accounts	18,895	-	21,240	40,135
Intergovernmental	10,320,038	755,801	-	11,075,839
Net receivables	<u>\$ 10,754,175</u>	<u>\$ 755,801</u>	<u>\$ 408,177</u>	<u>\$ 11,918,153</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Payment received prior to meeting all eligibility requirements	<u>\$ -</u>	<u>\$ 301,466</u>

Northville Public Schools

Notes to Financial Statements June 30, 2008

Note 5 - Capital Assets

Capital asset activity of the School District's governmental activities was as follows:

	Balance July 1, 2007	Additions	Disposals and Adjustments	Balance June 30, 2008
Capital assets not being depreciated - Land	\$ 3,377,000	\$ -	\$ -	\$ 3,377,000
Capital assets being depreciated:				
Building and building improvements	142,051,842	478,642	-	142,530,484
Buses and other vehicles	4,161,138	22,500	(93,833)	4,089,805
Furniture and equipment	21,910,539	468,211	-	22,378,750
Subtotal	168,123,519	969,353	(93,833)	168,999,039
Accumulated depreciation:				
Building and building improvements	33,788,192	3,371,491	-	37,159,683
Buses and other vehicles	2,955,776	279,015	(93,833)	3,140,958
Furniture and equipment	19,229,126	757,767	-	19,986,893
Subtotal	55,973,094	4,408,273	(93,833)	60,287,534
Net capital assets being depreciated	112,150,425	(3,438,920)	-	108,711,505
Net governmental capital assets	<u>\$ 115,527,425</u>	<u>\$ (3,438,920)</u>	<u>\$ -</u>	<u>\$ 112,088,505</u>

Depreciation expense was charged to activities of the School District as follows:

Governmental activities:

Instruction	\$ 528,993
Support services	3,747,032
Food services	<u>132,248</u>
Total governmental activities	<u>\$ 4,408,273</u>

Construction Commitments - The School District has active construction projects at year end including the 2004 bond issue. At year end, the School District's commitment with contractors is as follows:

	Spent to Date	Remaining Commitment
2004 bond issue	\$ 35,141,026	\$ 3,142,291

Northville Public Schools

Notes to Financial Statements June 30, 2008

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Fund Due To	Fund Due From				Total
	General Fund	2004 Building and Site Fund	Trust and Agency	Nonmajor Governmental Funds	
Trust and agency	\$ 629,495	\$ -	\$ -	\$ -	\$ 629,495
Special Education Center Program	314,529	239,874	-	-	554,403
Nonmajor governmental funds	-	299,016	13,999	241,364	554,379
Total	<u>\$ 944,024</u>	<u>\$ 538,890</u>	<u>\$ 13,999</u>	<u>\$ 241,364</u>	<u>\$ 1,738,277</u>

Interfund balances represent routine and temporary cash flow assistance from the General Fund until amounts are transferred from fund bank accounts.

Interfund Transfers

	Transfers Out			Total
	General Fund	Special Education Center	Other Governmental Funds	
Transfers in:				
General Fund	\$ -	\$ 1,167,682	\$ 235,103	\$ 1,402,785
Other governmental funds	547,764	-	599,082	1,146,846
Total	<u>\$ 547,764</u>	<u>\$ 1,167,682</u>	<u>\$ 834,185</u>	<u>\$ 2,549,631</u>

Transfers provided funding for special education and subsidized operations in the Athletics and Food Services Funds.

Note 7 - Long-term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include compensated absences and certain risk liabilities.

Northville Public Schools

Notes to Financial Statements June 30, 2008

Note 7 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds	\$ 96,260,000	\$ -	\$ 7,170,000	\$ 89,090,000	\$ 6,775,000
Premium	3,698,789	-	304,921	3,393,868	304,921
Other obligations	2,256,280	7,429,235	7,464,615	2,220,900	-
Total governmental activities	<u>\$ 102,215,069</u>	<u>\$ 7,429,235</u>	<u>\$ 14,939,536</u>	<u>\$ 94,704,768</u>	<u>\$ 7,079,921</u>

Annual debt service requirements to maturity for the above governmental bond and note obligations are as follows:

	Governmental Activities		
	Principal	Interest	Total
2009	\$ 6,775,000	\$ 4,043,894	\$ 10,818,894
2010	6,850,000	3,820,644	10,670,644
2011	6,925,000	3,560,894	10,485,894
2012	7,025,000	3,229,544	10,254,544
2013	6,990,000	2,899,770	9,889,770
2014-2018	35,725,000	9,628,818	45,353,818
2019-2023	16,300,000	2,778,190	19,078,190
2024	2,500,000	112,500	2,612,500
Total	<u>\$ 89,090,000</u>	<u>\$ 30,074,254</u>	<u>\$ 119,164,254</u>

Northville Public Schools

Notes to Financial Statements June 30, 2008

Note 7 - Long-term Debt (Continued)

Governmental Activities

General obligation bonds consist of the following:

2001 \$27,510,000 serial and term bonds due in annual installments of \$675,000 to \$1,625,000 through May 1, 2021; interest at 2.90 percent to 5.375 percent	\$ 10,350,000
2004 \$34,740,000 serial and term bonds due in annual installments of \$1,425,000 to \$2,500,000 through May 1, 2024; interest at 2.25 percent to 5.25 percent	31,525,000
2005 \$40,550,000 serial and term bonds due in annual installments of \$3,700,000 through May 1, 2018; interest at 2.5 percent to 5 percent	37,000,000
2005B \$11,215,000 serial and term bonds due in annual installments of \$50,000 to \$1,525,000 through May 1, 2019; interest at 3 percent to 5 percent	<u>10,215,000</u>
Total bonded debt	<u>\$ 89,090,000</u>

Other governmental activities long-term obligations include the following:

Employee-compensated absences	\$ 1,646,636
Self-insurance	<u>574,264</u>
Total	<u>\$ 2,220,900</u>

Note 8 - Restricted Assets

The balances of the restricted asset accounts are unspent bond proceeds and related interest in the amount of \$3,864,137.

Note 9 - Risk Management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District participates in the Metropolitan Association for Improved School Legislation (MAISL) risk pool for claims relating to property loss, torts, and errors and omissions; the School District is partially uninsured for health and dental claims.

Northville Public Schools

Notes to Financial Statements June 30, 2008

Note 9 - Risk Management (Continued)

The shared-risk pool program in which the School District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

For risk retention situations, the School District estimates the liability for health and dental claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates are recorded in the district-wide statements. Changes in the estimated liability for the past two fiscal years were as follows:

	2008	2007
Estimated liability - Beginning of year	\$ 499,463	\$ 528,991
Estimated claims incurred - Including changes in estimates	7,429,235	7,328,977
Claim payments	7,354,434	7,358,505
Estimated liability - End of year	<u>\$ 574,264</u>	<u>\$ 499,463</u>

Note 10 - Defined Benefit Pension Plan and Postemployment Benefits

Plan Description - The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The system provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The system also provides postemployment healthcare benefits to retirees and beneficiaries who elect to receive those benefits.

The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the pension and postemployment healthcare plans. That report is available on the web at <http://www.michigan.gov/orsschools>, or by writing to the Office of Retirement System at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909.

Note 10 - Defined Benefit Pension Plan and Postemployment Benefits (Continued)

Pension Benefits - Employer contributions to the MPSERS result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits. The pension benefit rate was 11.19 percent of covered payroll for the period from July 1, 2007 through September 30, 2007 and 10.17 percent for the period from October 1, 2007 through June 30, 2008. Basic plan members make no contributions, but member investment plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's required and actual contributions to the plan for the years ended June 30, 2008, 2007, and 2006 were \$5,001,115, \$5,339,038, and \$4,271,575, respectively.

Postemployment Benefits - Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate. Required contributions for postemployment healthcare benefits are included as part of the School District's total contribution to the MPSERS plan discussed above. The employer contribution rate was 6.55 percent of covered payroll for the period from July 1, 2007 through September 30, 2007 and 6.55 percent for the period from October 1, 2007 through June 30, 2008.

The School District's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2008, 2007, and 2006 were \$3,220,340, \$3,124,877, and \$2,858,412, respectively.

Note 11 - State Aid Anticipation Note

On August 20, 2007, Northville Public Schools borrowed \$10,000,000 in a state aid anticipation note. The note bears effective interest at 3.9 percent and was due and paid on August 20, 2008. At June 30, 2008, Northville Public Schools has accrued interest of \$316,859 on this note.

Note 12 - Subsequent Events

On August 20, 2008, Northville Public Schools borrowed \$10,000,000 in a state aid anticipation note. The note is due on August 20, 2009.

Required Supplemental Information

Northville Public Schools

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
Local sources	\$ 11,033,140	\$ 11,187,534	\$ 10,645,994	\$ (541,540)
State sources	49,482,076	49,838,053	50,303,826	465,773
Federal sources	1,300,000	1,150,000	1,230,523	80,523
Interdistrict sources	889,200	669,200	782,942	113,742
Total revenue	62,704,416	62,844,787	62,963,285	118,498
Expenditures - Current				
Instruction:				
Basic programs	34,842,217	33,888,260	33,847,578	(40,682)
Added needs	5,619,025	5,642,893	5,617,058	(25,835)
Support services:				
Pupil	3,430,605	3,488,850	3,456,678	(32,172)
Instructional staff	2,356,880	2,221,931	2,202,409	(19,522)
General administration	1,203,830	1,073,848	1,064,437	(9,411)
School administration	3,643,335	3,890,276	3,863,793	(26,483)
Business services	1,087,715	1,128,251	1,123,164	(5,087)
Transportation and maintenance	10,191,846	10,820,061	10,779,032	(41,029)
Central staff	1,090,035	1,131,495	1,118,635	(12,860)
Other	46,083	46,083	38,015	(8,068)
Capital outlay	-	-	27,007	27,007
Total expenditures	63,511,571	63,331,948	63,137,806	(194,142)
Other Financing Sources (Uses)				
Transfers in	1,625,000	1,475,000	1,402,785	(72,215)
Transfers out	(672,520)	(627,520)	(547,764)	79,756
Total other financing sources (uses)	952,480	847,480	855,021	7,541
Net Change in Fund Balance	145,325	360,319	680,500	320,181
Fund Balance - July 1, 2007	3,179,599	3,179,599	3,179,599	-
Fund Balance - June 30, 2008	<u>\$ 3,324,924</u>	<u>\$ 3,539,918</u>	<u>\$ 3,860,099</u>	<u>\$ 320,181</u>

Northville Public Schools

Required Supplemental Information Budgetary Comparison Schedule - Special Education Center Fund Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
State sources	\$ 3,737,774	\$ 3,737,774	\$ 3,709,603	\$ (28,171)
Interdistrict sources	<u>9,611,420</u>	<u>9,611,420</u>	<u>9,254,770</u>	<u>(356,650)</u>
Total revenue	13,349,194	13,349,194	12,964,373	(384,821)
Expenditures - Current - Special education	<u>13,349,194</u>	<u>13,349,194</u>	<u>12,964,910</u>	<u>(384,284)</u>
Net Change in Fund Balance	-	-	(537)	(537)
Fund Balance - July 1, 2007	<u>3,185</u>	<u>3,185</u>	<u>3,185</u>	<u>-</u>
Fund Balance - June 30, 2008	<u>\$ 3,185</u>	<u>\$ 3,185</u>	<u>\$ 2,648</u>	<u>\$ (537)</u>

Other Supplemental Information

Northville Public Schools

	Special Revenue Funds			Debt Service	
			Early Childhood Development Center	1997	2001
	Food Services	Athletics			
Assets					
Cash and investments	\$ 5,947	\$ 1,269	\$ 1,357	\$ -	\$ 110,643
Receivables - Net:					
Taxes	-	-	-	-	70,879
Accounts	21,240	-	-	-	-
Due from other funds	82,898	17,581	212,471	-	-
Inventories	76,778	-	-	-	-
Total assets	<u>\$ 186,863</u>	<u>\$ 18,850</u>	<u>\$ 213,828</u>	<u>\$ -</u>	<u>\$ 181,522</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 30,633	\$ 18,850	\$ 1,460	\$ -	\$ -
Due to other funds	-	-	-	-	181,522
Deferred revenue	21,418	-	-	-	-
Total liabilities	52,051	18,850	1,460	-	181,522
Fund Balances					
Reserved - Inventories	76,778	-	-	-	-
Unreserved:					
Designated for debt service	-	-	-	-	-
Undesignated, reported in Special Revenue Funds	58,034	-	212,368	-	-
Total fund balances	134,812	-	212,368	-	-
Total liabilities and fund balances	<u>\$ 186,863</u>	<u>\$ 18,850</u>	<u>\$ 213,828</u>	<u>\$ -</u>	<u>\$ 181,522</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2008**

Funds

2001-2002	2004	2005 Refunding	2005B Refunding	Total
\$ -	\$ 168,918	\$ 651,144	\$ 138,922	\$ 1,078,200
-	83,471	232,587	-	386,937
-	-	-	-	21,240
97,381	60,283	-	83,765	554,379
-	-	-	-	76,778
\$ 97,381	\$ 312,672	\$ 883,731	\$ 222,687	\$ 2,117,534
\$ -	\$ -	\$ -	\$ -	\$ 50,943
-	-	59,842	-	241,364
-	-	-	-	21,418
-	-	59,842	-	313,725
-	-	-	-	76,778
97,381	312,672	823,889	222,687	1,456,629
-	-	-	-	270,402
97,381	312,672	823,889	222,687	1,803,809
\$ 97,381	\$ 312,672	\$ 883,731	\$ 222,687	\$ 2,117,534

Northville Public Schools

	Special Revenue Funds			Debt Service	
			Early Childhood Development Center	1997	2001
Revenue	Food Services	Athletics			
Local	\$ 2,205,387	\$ 253,091	\$ 2,356,622	\$ 240,579	\$ 2,239,752
State	67,874	-	-	-	-
Federal	187,926	-	-	-	-
Interdistrict	-	-	2,300	-	-
Total revenue	2,461,187	253,091	2,358,922	240,579	2,239,752
Expenditures					
Current:					
Community services	-	-	2,045,444	-	-
Food services	2,334,269	-	-	-	-
Athletics	-	728,978	-	-	-
Debt service:					
Principal	-	-	-	195,000	1,575,000
Interest	-	-	-	9,750	535,896
Other	-	-	-	129,190	63,426
Capital outlay	5,013	-	-	-	-
Total expenditures	2,339,282	728,978	2,045,444	333,940	2,174,322
Excess of Revenue Over (Under) Expenditures	121,905	(475,887)	313,478	(93,361)	65,430
Other Financing Sources (Uses)					
Transfers in	-	547,764	-	-	-
Transfers out	-	(71,877)	(163,226)	(452,895)	(146,187)
Total other financing sources (uses)	-	475,887	(163,226)	(452,895)	(146,187)
Net Change in Fund Balances	121,905	-	150,252	(546,256)	(80,757)
Fund Balances - Beginning of year	12,907	-	62,116	546,256	80,757
Fund Balances - End of year	<u>\$ 134,812</u>	<u>\$ -</u>	<u>\$ 212,368</u>	<u>\$ -</u>	<u>\$ -</u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2008

Funds

2001-2002	2004	2005 Refunding	2005 Refunding	Total
\$ 889,681	\$ 2,597,592	\$ 5,629,135	\$ 541,651	\$ 16,953,490
-	-	-	-	67,874
-	-	-	-	187,926
-	-	-	-	2,300
889,681	2,597,592	5,629,135	541,651	17,211,590
-	-	-	-	2,045,444
-	-	-	-	2,334,269
-	-	-	-	728,978
800,000	1,000,000	3,550,000	50,000	7,170,000
34,000	1,440,655	1,763,000	475,775	4,259,076
45,547	-	338	-	238,501
-	-	-	-	5,013
879,547	2,440,655	5,313,338	525,775	16,781,281
10,134	156,937	315,797	15,876	430,309
-	-	452,895	146,187	1,146,846
-	-	-	-	(834,185)
-	-	452,895	146,187	312,661
10,134	156,937	768,692	162,063	742,970
87,247	155,735	55,197	60,624	1,060,839
<u>\$ 97,381</u>	<u>\$ 312,672</u>	<u>\$ 823,889</u>	<u>\$ 222,687</u>	<u>\$ 1,803,809</u>

Northville Public Schools

Other Supplemental Information Schedule of Bonded Indebtedness Year Ended June 30, 2008

	2001	2004	2005 Refunding	2005B Refunding
June 30	Principal	Principal	Principal	Principal
2009	\$ 1,600,000	\$ 1,425,000	\$ 3,700,000	\$ 50,000
2010	1,600,000	1,500,000	3,700,000	50,000
2011	1,600,000	1,575,000	3,700,000	50,000
2012	1,625,000	1,650,000	3,700,000	50,000
2013	675,000	1,725,000	3,700,000	890,000
2014	-	1,775,000	3,700,000	1,500,000
2015	-	1,850,000	3,700,000	1,525,000
2016	-	1,925,000	3,700,000	1,525,000
2017	-	2,000,000	3,700,000	1,525,000
2018	-	2,075,000	3,700,000	1,525,000
2019	-	2,150,000	-	1,525,000
2020	1,625,000	2,225,000	-	-
2021	1,625,000	2,300,000	-	-
2022	-	2,375,000	-	-
2023	-	2,475,000	-	-
2024	-	2,500,000	-	-
2025	-	-	-	-
2026	-	-	-	-
2027	-	-	-	-
	-	-	-	-
Total	<u><u>\$ 10,350,000</u></u>	<u><u>\$ 31,525,000</u></u>	<u><u>\$ 37,000,000</u></u>	<u><u>\$ 10,215,000</u></u>
Principal payments due	May 1	May 1	May 1	May 1
Interest payments due	May 1 and November 1	May 1 and November 1	May 1 and November 1	May 1 and November 1
Interest rate	2.9% to 5.375%	2.25% to 5.25%	2.5% to 5%	3% to 5%
Original issue	<u><u>\$ 27,510,000</u></u>	<u><u>\$ 34,740,000</u></u>	<u><u>\$ 40,550,000</u></u>	<u><u>\$ 11,215,000</u></u>

Northville Public Schools

**Federal Awards
Supplemental Information
June 30, 2008**

Northville Public Schools

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Independent Auditor's Report

To the Board of Education
Northville Public Schools

We have audited the financial statements that collectively comprise Northville Public Schools basic financial statements for the year ended June 30, 2008 and have issued our report thereon dated September 3, 2008. Those basic financial statements are the responsibility of the management of Northville Public Schools. Our responsibility was to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Northville Public Schools taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

September 3, 2008

Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*

To the Board of Education
Northville Public Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Northville Public Schools as of and for the year ended June 30, 2008, which collectively comprise Northville Public Schools' basic financial statements, and have issued our report thereon dated September 3, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Northville Public Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Northville Public Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Northville Public Schools' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

To the Board of Education
Northville Public Schools

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northville Public Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of Northville Public Schools in a separate letter dated September 3, 2008.

This report is intended solely for the information and use of management, the Board of Education, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

September 3, 2008

**Report on Compliance with Requirements Applicable to Each Major Program and on
Internal Control Over Compliance in Accordance with OMB Circular A-133**

To the Board of Education
Northville Public Schools

Compliance

We have audited the compliance of Northville Public Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. The major federal programs of Northville Public Schools are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Northville Public Schools' management. Our responsibility is to express an opinion on Northville Public Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred.

An audit includes examining, on a test basis, evidence about Northville Public Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Northville Public Schools' compliance with those requirements.

In our opinion, Northville Public Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

To the Board of Education
Northville Public Schools

Internal Control Over Compliance

The management of Northville Public Schools is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Northville Public Schools' internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Education, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

September 3, 2008

Northville Public Schools

Schedule of Expenditures of Federal Awards Year Ended June 30, 2008

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued Revenue at July 1, 2007	Federal Funds/ Payments In-kind Received	Expenditures	Accrued Revenue at June 30, 2008
Clusters:							
Child Nutrition Cluster - U.S. Department of Agriculture - Passed through the Michigan Department of Education - National School Lunch Program:	10.555						
2007-08		\$ 158,044	\$ -	\$ -	\$ 149,385	\$ 158,044	\$ 8,659
2006-07		141,425	141,425	8,540	8,540	-	-
Total Child Nutrition Cluster		299,469	141,425	8,540	157,925	158,044	8,659
Special Education Cluster - U.S. Department of Education:							
Passed through the Wayne County ISD - IDEA:	84.027						
Flowthrough Project - FY 08 Funding		611,158	-	-	564,073	611,158	47,085
Flowthrough Project - FY 07 Carryover		25,476	-	-	25,476	25,476	-
Flowthrough Project - FY 07 Funding		576,800	551,324	32,204	32,204	-	-
WCCP Flowthrough Project - FY 08 Funding		321,886	-	-	317,712	321,886	4,174
WCCP Flowthrough Project - FY 07 Funding		373,478	373,478	43,180	43,180	-	-
Transition Services- FY 08 Funding		3,848	-	-	-	3,848	3,848
Transition Services- FY 07 Funding		4,918	4,918	4,918	4,918	-	-
Passed through the Michigan Department of Education: IDEA - Service Provider Self Review - Grant 080440	84.027	5,000	-	-	4,250	5,000	750
Total IDEA		1,922,564	929,720	80,302	991,813	967,368	55,857
Preschool Incentive:							
FY 08 Funding	84.173	67,522	-	-	59,552	67,522	7,970
FY 07 Carryover		11,076	-	-	11,076	11,076	-
FY 07 Funding		69,642	58,566	5,240	5,240	-	-
Total Preschool Incentive		148,240	58,566	5,240	75,868	78,598	7,970
Total Special Education Cluster		2,070,804	988,286	85,542	1,067,681	1,045,966	63,827
Other Federal Awards:							
U.S. Department of Education - Passed through the Michigan Department of Education:							
Title V - Part A:	84.298						
Project Number 080520 0708		1,440	-	-	225	225	-
Project Number 070520 0607		1,419	-	-	1,419	1,419	-
Total Title V-Part A		2,859	-	-	1,644	1,644	-
Title II - Part A:	84.367						
Project Number 080520 0708		116,454	-	-	96,630	98,528	1,898
Project Number 070520 0607		109,185	66,687	9,815	46,331	36,516	-
Total Title II - Part A		225,639	66,687	9,815	142,961	135,044	1,898
Safe and Drug-free Schools and Communities - Project Number 082860 0708	84.186	15,613	-	-	15,340	15,613	273
Title III - Limited English Proficient Students:							
Project Number 080580 0708	84.365a	17,349	-	-	9,046	9,408	362
Project Number 070580 0607		13,667	5,709	556	8,514	7,958	-
Total Title III		31,016	5,709	556	17,560	17,366	362
Total U.S. Department of Education noncluster programs - Passed through the Michigan Department of Education		275,127	72,396	10,371	177,505	169,667	2,533

Northville Public Schools

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2008

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued Revenue at July 1, 2007	Federal Funds/ Payments In-kind Received	Expenditures	Accrued Revenue at June 30, 2008
Other Federal Awards (Continued):							
Michigan Department of Community Health - Passed through Wayne County ISD - Medicaid Transportation	93.778	\$ 1,964	\$ -	\$ -	\$ 1,964	\$ 1,964	\$ -
U.S. Department of Justice - Passed through Northville Twp Police Dept - COPS 2005 Secure Our Schools - Grant # 2005CKWX0559	16.710	257,482	244,112	-	4,001	4,001	-
U.S. Department of Agriculture - Passed through the Michigan Department of Education - Food Distribution - Entitlement commodities - 2007-08	10.550	29,882	-	-	29,882	29,882	-
U.S. Department of Education - Passed through West Bloomfield School District - West Oakland-Wayne Safe Schools Consortium	84.184E	8,925	-	-	8,925	8,925	-
Total Federal Awards		<u>\$ 2,943,653</u>	<u>\$ 1,446,219</u>	<u>\$ 104,453</u>	<u>\$ 1,447,883</u>	<u>\$ 1,418,449</u>	<u>\$ 75,019</u>

Northville Public Schools

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2008

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Northville Public Schools and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 - Noncash Assistance

The value of the noncash assistance received was determined in accordance with the provisions of OMB Circular A-133.

Commodities - Inventory values are based on USDA value for donated foods commodities (per food scoop). Reported commodity receipt values were computed using the recipient entitlement balance report and other records. Spoilage or pilferage, if any, is included in expenditures.

Note 3 - Grant Section Auditor's Report

Management has utilized Form R-7120 and the Grant Auditors Report in preparing the schedule of expenditures of federal awards. Unreconciled differences, if any, have been disclosed to the auditor.

Northville Public Schools

Schedule of Findings and Questioned Costs Year Ended June 30, 2008

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ Yes X No

Identification of major program(s):

CFDA Numbers	Name of Federal Program or Cluster
	Special Education Cluster:
84.027	IDEA
84.173	Preschool Incentive

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes _____ No

Northville Public Schools

Schedule of Findings and Questioned Costs (Continued) **Year Ended June 30, 2008**

Section II - Financial Statement Audit Findings

None

Section III - Federal Program Audit Findings

None

September 3, 2008

Board of Education
Northville Public Schools
501 West Main Street
Northville, MI 48167

Dear Board Members:

We recently completed our audit of the basic financial statements of Northville Public Schools for the year ended June 30, 2008. As a result of our audit and implementation of the new auditing standards, we reviewed detailed narratives of your accounting and control procedures and offer the following comments and recommendations for your review and consideration.

BUSINESS OFFICE PROCEDURES

Ensuring proper segregation of duties is a major building block for strong internal controls. However, with shrinking budgets and streamlined business offices, perfect segregation of duties is sometimes a luxury. Currently, the District Accountant prepares the cash bank reconciliations and also has the ability to post journal entries. The journal entries and bank reconciliations are reviewed and approved before posting which mitigates the risk, however, to further improve segregation of duties the District should consider options for separating these duties or implementing another control procedure to further reduce the risk associated with cash transactions.

DOCUMENTED ACCOUNTING AND CONTROL PROCEDURES

Currently informal and well known procedures as well as formal Board policies exist related to the District's procurement and construction activities. We recommend the informal procedures be formally recognized in written procedures. Written documentation acts as a resource for guidance and support when performing daily functions in the event questions arise. These documented procedures will also ensure the team adheres to district policy in its daily decision making.

Upon selection of a sample of cash disbursements, we noted two isolated items where the documented accounting and control procedures were not consistently followed. The transactions selected were insignificant when compared to the financial statement and properly recognized and recorded; however, no emergency procedures exist or appear to be followed. As cases like this may arise in the future, emergency policies and procedures should be formally documented.

RETAINAGE ACCRUAL

As construction projects progress, an amount equal to approximately 10% on each billing cycle is not paid and is due upon completion of the project. This amount, called retainage, is earned however, and required to be recorded as an accrued liability. We noted that the retainage on the current roof replacement project was not recorded at June 30. While the amount was immaterial to the financial statements, a system does not appear to be in place to ensure retainages are properly recorded. A review of the current control procedure should be performed to identify and properly record the required retainage accrual.

FUND BALANCE

During the 2007-2008 fiscal year the District continued to face a lower level of funding increase provided by the State of Michigan. This fact and the likely lower than inflation level expected for 2008-2009 continues to put pressure on the operating budget and fund equity.

During the 2007-2008 school year, the District's General Fund revenues exceeded expenditures by approximately \$680,000. This resulted in increasing the General Fund balance to approximately \$3.8 million at June 30, 2008. We feel that it is important for the District to maintain its fund equity at an appropriate level, especially in light of the state's struggling economy. The benefit of maintaining appropriate fund equity is the ability to meet unforeseen circumstances, like the implementation of State Aid proration, without significantly affecting the level of programs for the year. This gives the District time to work out financial changes without the need for sudden or drastic reactions to adverse circumstances. The need for Fund Equity will continue to be important due to the funding caps imposed by school finance reform, (as experienced over the last few years), continuing concerns over the financial health of the school aid fund, and continued cash flow concerns due to the receipt of over 18% of the District's State aid after the school year has ended.

Fund balance goals are often stated in terms of a percentage of total expenditures. As a point of reference, the statewide average for school districts at June 30, 2007, (Excluding Detroit) is approximately 13.34 percent of expenditures. The school district's fund equity percentage is 6.1 percent, which is slightly up from last year's percentage, however this is still short of the Board's goal of 11 percent.

STATE AID ISSUES

Retirement Rate:

Legislation restructured the elements computing the MPERS retirement rate creating a lower cost to the retirement system. The District paid in 17.74% through September 30, 2007. Beginning October 1, 2007 the rate was reduced to 16.72%. The 2008-2009 retirement rate has been determined and beginning October 1, 2008 will be 16.54%.

Kindergarten Full-Funding "intent" Language:

As part of the budget plan, the amendments to the State aid act include "intent language" to move toward a full day kindergarten requirement. Essentially the language provides that, beginning in fiscal year end 2009-2010, half-day developmental kindergarten programs would be funded at 50% (current law fully funds those programs). In addition, kindergarten programs would be fully funded in fiscal year 2010-2011 if they operated for 60% of a day, and fully funded in FY 2011-2012 if they operated for 70% of a day.

21st Century Schools:

The amendments to the State Aid Act also provide resources with a focus on increasing graduation rates. Grants of up to \$3.0 million would be made available to districts with less than a 70% graduation rate, as long as the district matched the grant funds. The district would have to graduate at least 80% of their students by the third year, and 80% of those students would have to go on to postsecondary education, or the district would have to return 50% of the grant.

As the State's budget year moves forward, they will monitor the revenue intake with periodic revenue estimating conferences. State law requires that the appropriations cannot exceed revenue estimates. As a result, it is possible there could be reductions to district funding if the State is not able to generate the funding levels identified in the May 2008 revenue estimating conference.

TECHNOLOGY REVIEW ISSUES

Access Termination

It was noted that the last log-in date and time is not confirmed when removing access for terminated employees. Best practices are that the last log-in date is confirmed at time of termination. However, RESA has indicated that transaction logging is enabled

Board of Education
Northville Public Schools

September 3, 2008

for the financial system which means the District should be using the same practice and take advantage of RESA's control.

User Access Review

The departments and buildings provide IT with a list of users that need access on some type of regular basis. We noted that department heads and principals can review financial activity on SMART but cannot input any change. Human Resources can input employee data but cannot post any PR. Employees of the Business Office, as authorized by the Director of Business Services, have access to the financial applications that could change financial data. The users should continue to be reviewed at least annually, and IT should be notified as soon as any changes are required.

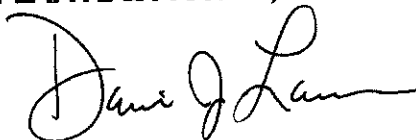
Authentication Controls

The minimum password length is recommended to be 7 characters (alpha and special) and complexity requirements should be enforced. Passwords should expire minimally within 90 days. The network should be set up to lock out users after a set number of unsuccessful logon attempts. A common practice would be to lock out users after three unsuccessful attempts for at least 15 minutes. RESA is in charge of this function with little control of changing the requirement in the near future.

We would like to thank John Street and Millie Whitbeck, as well as all of the Northville's Public Schools personnel for their assistance during the audit. The change over to the new auditing standards was a giant task that was clearly made easier by the hard work of the school district's staff. We appreciate the opportunity to serve as your auditors. If there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.

Very truly yours,

PLANTE & MORAN, PLLC



Dennis J. Lesnau

September 3, 2008

To the Board of Education
Northville Public Schools

We have audited the financial statements of Northville Public Schools for the year ended June 30, 2008, and have issued our report thereon dated September 3, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 3, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of Northville Public Schools. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Our audit of Northville Public Schools' financial statements has also been conducted in accordance with Government Auditing Standards, issued by the Comptroller General of the United States. Under those Government Auditing Standards, we have made some assessments of Northville Public Schools' compliance with certain provisions of laws, regulations, contracts, and grant agreements. While those assessments are not sufficient to identify all noncompliance with applicable laws, regulations, and contract provisions, we are required to communicate all noncompliance conditions that come to our attention. We have communicated those conditions in a separate letter dated September 3, 2008 regarding our consideration of the Northville Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements.

To the Board of Education
Northville Public Schools

September 3, 2008

We also are obligated to communicate certain matters related to our audit to those responsible for the governance of Northville Public Schools, including certain instances of error or fraud and significant deficiencies in internal control that we identify during our audit. In certain situations, Government Auditing Standards requires disclosure of illegal acts to applicable government agencies. If such illegal acts were detected during our audit, we would be required to make disclosures regarding these acts to applicable government agencies. No such disclosures were required.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on June 3, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Northville Public Schools are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007-2008.

We noted no transactions entered into by the organization during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. No significant estimates were identified during our audit.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

To the Board of Education
Northville Public Schools

September 3, 2008

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 3, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

In the normal course of our professional association with the organization we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the organization, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Northville Public School's auditors.

To the Board of Education
Northville Public Schools

September 3, 2008

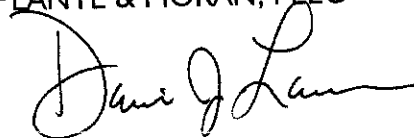
Other Information in Documents Containing Audited Financial Statements

Our responsibility relates to the organization's financial statements and other information as identified in the auditor's report. We have no responsibility for any other information that may be included in documents containing those audited statements. We do not have an obligation to perform any procedures to corroborate other information contained in these documents. We read the Management Discussion and Analysis and nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information or manner of its presentation appearing in the financial statements.

This information is intended solely for the use of Board of Education and management of Northville Public Schools and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

PLANTE & MORAN, PLLC

A handwritten signature in black ink, appearing to read "Dennis J. Lesnau", written over the printed name below.

Dennis Lesnau